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State Auditor Vaudt Reviews Governor's Fiscal Year 2006 Budget.

Concerns: Budget lacks clarity; spending exceeds revenues; budget lacks longer-range focus.

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and in his duty to report directly to the people of Iowa on the condition of the State’s finances, State Auditor David A. Vaudt has completed his review of the Governor’s proposed Fiscal Year 2006 budget. Some of his findings include—

Lack of Clarity

“For our elected officials to make truly informed budgeting decisions, it is critical that we make apples-to-apples comparisons of Iowa’s spending levels,” commented Auditor Vaudt. “The Governor’s budget continues to lack the clarity needed to make meaningful spending comparisons.” While the Governor’s budget purports to spend \$4.971 billion, it does not take into account shifted expenditures, salary and benefit increases, and Medicaid supplements. With these added in, the Governor’s “true total expenditures” swell to \$5.399 billion. That’s a difference of more than \$400 million when compared to the Governor’s figure. Auditor Vaudt added, “This lack of clarity presents a big obstacle to making good budgeting decisions.”

Spending Exceeds Revenue

Auditor Vaudt stressed, “The key to responsible budgeting is to bring expenditures in line with revenues.” He noted that, despite revenue gains through economic growth and a recommended cigarette and tobacco tax increase, spending in the Governor’s budget proposal still exceeds projected revenues by more than \$300 million. “If the Governor’s budget is adopted, this will be the 8th consecutive year where spending outpaced revenues,” said Vaudt.

Lack of Longer-range Focus

Since 2000, Iowa has tapped over 30 funds and special accounts in order to balance the budget, a practice continued in the Governor’s budget proposal. “Depleting these funds will have a dramatic impact on funding Iowa’s priorities in the future,” said Auditor Vaudt. Even with the proposed cigarette and tobacco tax increase, the Governor’s budget taps the Senior Living Trust Fund for another \$136 million, which will essentially deplete this fund in Fiscal Year 2006. None of that money has been directly spent to further the fund’s goal of creating a comprehensive at-home care system for Iowa’s seniors. “What’s the plan for Fiscal Year 2007? Long-range planning would have identified the issue and permitted us to plan for and impact the future rather than just react to it,” noted Vaudt.

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Auditor of State David A. Vaudt

Comments on
Governor Vilsack's & Lt. Governor Pederson's
Fiscal Year 2006 Budget Recommendations

February 21, 2005
Press Briefing

State of Iowa General Fund Budget Concerns

Remarks today will focus on three primary budget concerns:

- ◆ Lack of Clarity
- ◆ Spending Exceeds Revenues
- ◆ Lack of Longer-range Focus

State of Iowa General Fund Lack of Clarity

- ◆ Confusion continues—costs shifted to other funds, salary estimates excluded, and Medicaid supplemental appropriation “very likely”
- ◆ New ingredient to confusion - appropriate in Fiscal Year 2005, but spend in Fiscal Year 2006

State of Iowa General Fund Lack of Clarity

Expenditures presented in FY06 budget	\$4,971.3
Expenditures shifted to other funds	234.0
FY06 expenditures included in proposed FY05 supplemental appropriation	94.1

State of Iowa General Fund Lack of Clarity

Legislative Services Agency estimated additional spending (not included in Governor's budget):

Salaries and benefits—FY05	
annualization and FY06 increases	77.0
"Very likely" Medicaid supplemental	<u>23.0</u>

"True Total Expenditures"	<u><u>\$5,399.4</u></u>
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State of Iowa General Fund Lack of Clarity

FY06 Expenditures Shifted to:

Senior Living Trust Fund -

For Medicaid \$ 136.0

Tobacco Related Funds -

For Medicaid and Substance Abuse 51.4

For Debt Service Payments 15.7

Hospital Trust Fund -

Medicaid 22.9

Environment First Fund -

For Soil Conservation and

Park Operations 7.5

Iowa Values Bridge Financing Fund -

For Aviation Improvement Program .5

\$ 234.0

State of Iowa
General Fund
Lack of Clarity

FY06 Expenditures Included in
Proposed FY05 Supplemental
Appropriation -

Medicaid	\$ 55.0
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Early Care and Learning	<u>39.1</u>
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	<u><u>\$ 94.1</u></u>
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State of Iowa General Fund Lack of Clarity

FY05:

Enacted Budget	\$4,473.9
Shifted Expenditures	430.0
Needed Medicaid Supplemental	<u>65.0</u>
Estimated "True Total Expenditures"	<u><u>\$4,968.9</u></u>

FY06:

Estimated "True Total Expenditures"	<u><u>\$5,399.4</u></u>
Percentage Increase Over 2005	<u><u>8.7%</u></u>

State of Iowa General Fund Spending Exceeds Revenues

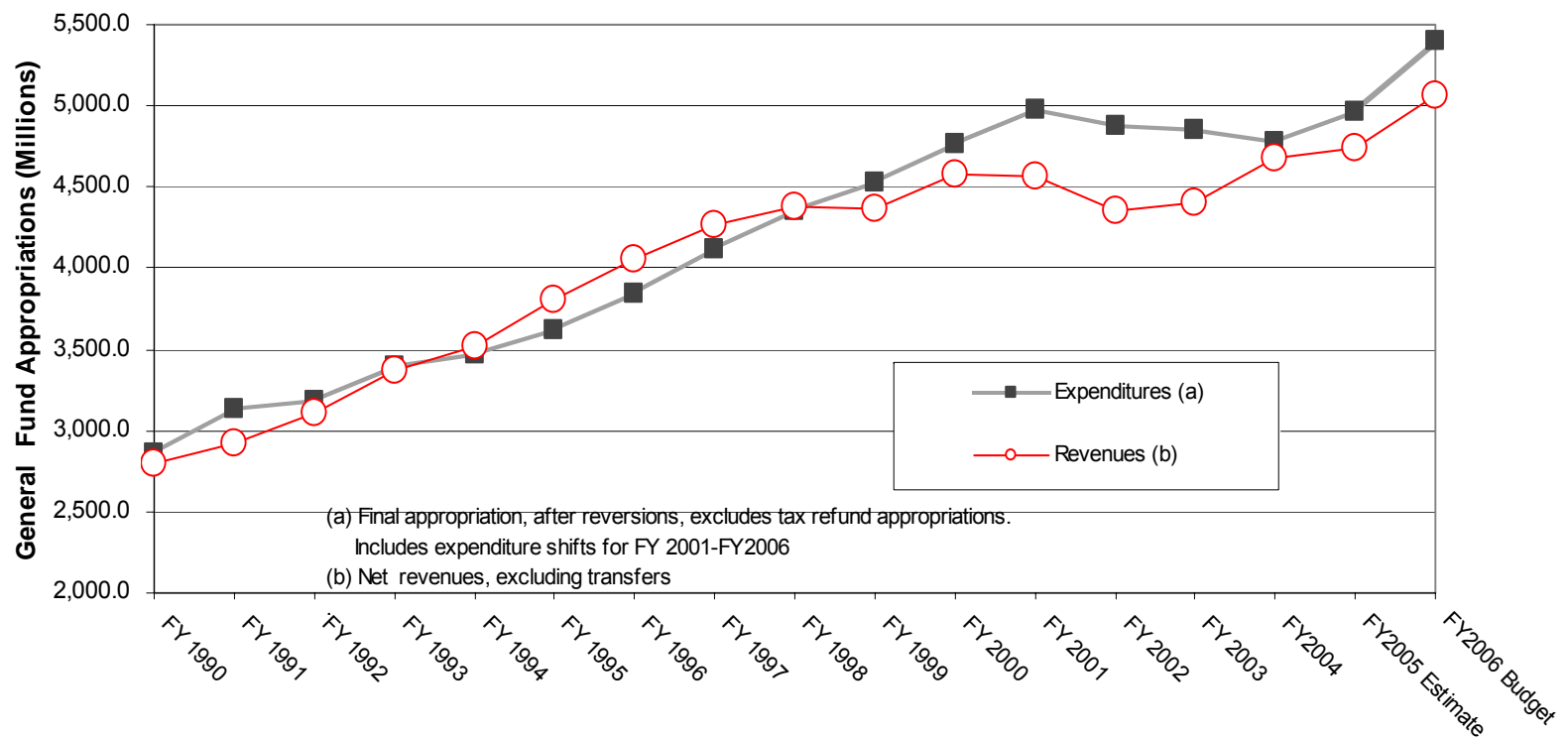
Historically, how?:

- ◆ Monies transferred from other funds
- ◆ Expenditures shifted to and paid for by other funds
- ◆ Spending limitation of 99% circumvented by special session and supplemental appropriations

State of Iowa General Fund Spending Exceeds Revenues

- ◆ In the Governor's budget, under the 99% spending limitation, only \$73.6 million remains—however, estimated additional costs for salaries, benefits, and Medicaid total \$100 million
- ◆ Plus, FY06 required \$49 million appropriation for repayment to Cash Reserve Fund—uses “notwithstanding”
- ◆ FY06 expenditures continue to exceed revenues—even with increased revenues from economic growth and proposed cigarette and tobacco tax increase

State of Iowa General Fund Spending Exceeds Revenues



State of Iowa General Fund Lack of Longer-range Focus

- ◆ Continues use of revenue transfers (\$41 million) and expenditure shifts (\$234 million)—increases spending shifted from “checking account” to “MasterCard”
- ◆ Fails to develop and/or implement repayment plan for monies taken from other funds:
 - No mention of amounts required by law to be repaid—\$550 at June 30, 2004
 - No mention of amounts taken from other funds—\$930 million at June 30, 2004
 - “Notwithstands” required FY06 Cash Reserve Fund repayment

State of Iowa General Fund Lack of Longer-range Focus

- ◆ Continues to deplete one-time and limited-time resources—Senior Living Trust Fund
- ◆ Continues one-year only focus—fails to consider long-term ramifications—rather than impact the future, we simply react to it

State of Iowa
General Fund
Summary of Revenue Transfers and Expenditure Shifts
Cumulative Amounts for Fiscal Years 2001 Through 2004
(Dollars in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Cumulative Revenues Transferred or Expenditures Shifted:				
Tobacco Related Funds	\$ 96.9	218.9	346.4	446.8
Senior Living Trust Fund	44.2	123.5	206.3	346.9
Economic Emergency Fund	66.1	216.0	222.7	222.7
Cash Reserve Fund	-	90.0	66.3	66.3
Underground Storage Tank Fund	9.0	27.0	57.0	57.0
Hospital Trust Fund	-	7.0	26.0	55.0
Environment First Fund	0.6	18.2	40.1	47.6
Rebuild Iowa Infrastructure Fund	-	9.8	31.2	42.5
Regents Demutualization	-	-	30.0	30.0
Reserve Fund Interest	-	15.6	20.8	28.4
Demutualization Unclaimed Property	-	-	-	26.7
Prison Infrastructure Fund	-	6.2	13.8	22.8
School Infrastructure Fund	-	-	22.0	22.0
AEA Balance Transfer	-	-	-	10.0
Insurance Premium Tax	-	-	10.0	10.0
Recreation Trails Fund	-	5.5	5.5	5.5
Ground Water Protection Fund	-	4.2	5.2	5.2
Waste Tire Fund	-	3.0	4.6	4.6
Vehicle Depreciation Fund	-	2.2	4.4	4.4
Enhanced Court Collections	4.0	4.0	4.0	4.0
Abandoned Property (Unclaimed Securities)	-	-	-	3.7
Terminal Liability Fund	-	3.5	3.5	3.5
DED - Strategic Investment Fund	-	3.0	3.0	3.0
Title Guarantee Fund	-	-	2.7	2.7
DED - Physical Infrastructure Assistance Fund	-	2.5	2.5	2.5
Risk Pool	-	1.5	1.5	1.5
Ag - Alternative Drainage Assistance Fund	-	1.1	1.1	1.1
Jury and Witness Fund	-	-	1.0	1.0
Brucellosis and Tuberculosis Fund	-	1.0	1.0	1.0
DNR - Snowmobile Fund	-	1.0	1.0	1.0
Victims Compensation Fund	-	1.0	1.0	1.0
All Terrain Vehicle Fund	-	0.8	0.8	0.8
DED - Value Added Agriculture Fund	-	0.3	0.3	0.3
Aviation Assistance Fund	-	0.3	0.3	0.3
Other Fund Transfers	-	1.7	2.6	3.5
	<u>\$ 220.8</u>	<u>768.8</u>	<u>1,138.6</u>	<u>1,485.3</u>

Source: Legislative Services Agency